

Investment Committee Meeting

Held at the Office of the Policemen's Annuity and Benefit Fund of Chicago (the Fund)

Held on February 25, 2019

Presiding:	Trustee and Investment Committee Chair: Mr. Thomas Beyna
Present:	Trustees: Ms. Samantha Fields, Ms. Carol Hamburger, Mr. Michael Lappe, Mr. Edward Wodnicki, and Mr. Brian Wright
Not Present:	Trustees: Ms. Carole Brown, and Mr. Kurt Summers, Jr.
Fund Office:	Mr. Kenneth Kaczmarz, Interim Executive Director, Ms. Caroline Vullmahn, Comptroller
NEPC, LLC	Mr. Kevin Leonard, Partner, Ms. DeAnna Jones, Senior Analyst, and Ms. Kristen Finney-Cooke, Senior Consultant
Others:	Ms. Sara Mongerson, Smith Group Asset Management

President Beyna called the meeting to order at approximately 9:00 a.m.

I. Cash Flow Update

Ms. Caroline Vullmahn, Comptroller of the Policemen's Annuity and Benefit Fund of Chicago (PABF or the Fund), began her presentation regarding the Fund's cash flow. Ms. Vullmahn provided the Committee members a PABF Cash Flow worksheet which was distributed and shows the Fund's cash balances, expected benefit payments and other expenses for the month, and the projected cash on hand as of February 28, 2019. Ms. Vullmahn indicated that at the end of the month, the cash balance is anticipated to be approximately \$104.1 million. Ms. Vullmahn indicated that significant tax collections are expected within the next several days and no redemptions of investments were necessary.

Ms. Vullmahn next discussed a worksheet that she prepared illustrating the estimated 2018 calendar year cash inflows and cash outflow. The worksheet had been previously distributed. Ms. Vullmahn discussed the sources of cash – investment manager redemptions, one-time investment event, distributions from private equity portfolio, dividend and interest receipts, tax reclaims, net securities lending, tax receipts (employer funding), and member contributions. Ms. Vullmahn discussed the uses of cash – member benefit payments, investments in manager mandates, investment manager fees, and administrative expenses. Overall, Ms. Vullmahn reported the 2018 activity generated approximately \$71.7 million decrease of cash.

The Fund began calendar year 2018 with an available cash balance of approximately \$95 million.

II. Performance Discussion

Mr. Kevin Leonard of NEPC provided NEPC's formal 4th quarter 2018 Investment Performance review and an in depth review of the Fund's Domestic Equity Portfolio.

For the quarter ended December 31, 2018, the Fund's investment portfolio was valued at \$2.3 billion and returned -7.01% across all investment categories which compared unfavorably to the Fund's overall reference index of -5.51% but favorably when compared to the -8.24% for the Universe of Public Funds.

Mr. Leonard then provided NEPC's in depth analysis of the Fund's Domestic Equity Portfolio which comprised 23% of the Fund's overall portfolio at December 31, 2018. Of this, the Fund had 12% in Large Cap, 10% in Small to Mid Cap and 2% in Micro Cap. Mr. Leonard stated that NEPC's research indicates that active managers have less success in outperforming the large cap indexes than the mid and small cap indexes. Large Cap managers are

reluctant to take the concentration bets necessary to achieve over performance. Broader portfolios usually serve only to mitigate risks (and returns) and provide index like returns. The lack of success in this segment is precisely why many Funds are choosing to invest in products that replicate the index at considerably lower fees.

Discussion ensued concerning the underperformance of two of the Fund's Large Cap managers; Denali Advisors, LLC (Denali) and Montag & Caldwell, LLC (Montag & Caldwell). As of December 31, 2018, Montag & Caldwell has underperformed at the 3-year, 5-year, 10-year, and since inception reporting (1996) periods. Denali has underperformed at the 3-month, 1-year, 5-year, 10-year, and since inception (2005) reporting intervals.

This underperformance confirms NEPC's comments concerning this market segment. The Fund would have been better off buying the index in this section and avoid active management fees for underperformance.

A motion was made by Trustee Wright, seconded by Trustee Lappe to go into executive session under 2 (c) (7)

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against: None (0)
Absent Brown, and Summers (2)

Upon Completion of the Executive Session;

A motion was made by Trustee Wright, seconded by Trustee Hamburger to come out of Executive Session

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki and Wright (6)
Against: None (0)
Absent Brown and Summers (2)

A motion was made by Trustee Wright, seconded by Fields, to concur with recommendations of the Committee made in Executive Session

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against: None (0)
Absent Brown, and Summers (2)

On motion of Trustee Wright, seconded by Trustee Hamburger to terminate Montag & Caldwell and transfer the Funds to the NTGI Index 1000 Fund.

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against: None (0)
Absent Brown, and Summers (2)

ON motion of Trustee Wright, seconded by Trustee Lappe to terminate Denali Investment Management and to transfer the Funds to NTGI Index 1000 Fund.

ROLL CALL

For: Beyna, Fields, Lappe, Wodnicki, and Wright (5)
Against: Hamburger (1)
Absent Brown, and Summers (2)

Mr. Leonard requested that the Trustees switch their attention to the comments provided in the NEPC formal report on the entire Fund at December 31, 2018. The negative performance in the 4th Quarter 2018 is attributable to three (3) main themes:

1. Rising interest rates
2. Uncertainty about global trade based on US and China tariffs
3. A related slow down in global growth

The combination of these factors caused a 13.5% reduction in the value of the S&P 500, a 12.5 % reduction in Non-US Equities and a 15% reduction in Emerging Markets. Fixed income investments also lost value as a trend of rising interest rates by many governments across the globe was being implemented. It was also becoming apparent that there was an over abundance of lower credit securities on the market which will eventually lead to a higher instance of defaults. Shifting toward higher rated government based securities may be advisable.

III. Investment Policy Document

Ms. DeAnna Jones of NEPC reported that she and Fund President Tom Beyna have worked extensively to develop a revised version of the Fund's Investment Policy document which has been distributed for review. The content of the document is essentially the same. The Investment Objective of each of the Fund's externally managed portfolios have been re-formatted and is easier to read.

A motion was made by Trustee Wright, seconded by Trustee Hamburger to make the changes to the Investment Guidelines without changes to the language and to present it at the next Investment Committee meeting.

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against: None (0)
Absent: Brown, and Summers (2)

Members have been asked to review for comment at the March 28, 2019 Investment Committee meeting.

Trustee Hamburger requested that research be conducted to determine if any additional revisions have been approved since March 22, 2016 and if so, that the dates be listed.

IV. Review of Taiwan Tax Guarantor

The Fund received the annual invoice and a request to execute a revised contract from KPMG Limited (KPMG), its current Tax Guarantor for the Fund's Securities holdings in the country of Taiwan. The Fund is registered as a "Foreign Institutional Investor (FINA) in Taiwan and required by Taiwan securities regulations to provide certain tax filings in regards to those securities held in the Fund's name. All securities transactions are conducted through the Taiwan exchange and are held at the First Bank of Taiwan which is the Northern Trust's sub-custodian in Taiwan.

The Fund had originally entered into this tax guarantor relationship with KPMG in 2004 and has paid the invoice annually. The Fund forwarded the contract for legal review and for any comments concerning the acceptance of the revised contract language.

A motion was made by Trustee Hamburger, seconded by Trustee Wright to approve continuing the KPMG relationship when the document is reviewed and approved by legal counsel.

ROLL CALL

For: Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against: None (0)
Absent: Brown, and Summers (2)

V. Elkins/McSherry, LLC/State Street Bank & Trust (Elkins/McSherry) Trading Analysis

Mr. Kaczmarz reported that the Fund has been paying \$5,000 each quarter for the production of a brokerage trading analysis through State Street Bank & Trust in concert with Elkins/McSherry. Conversations with DeAnna Jones of NEPC indicated that NEPC and the Northern Trust are capable of providing the essential information of the report as part of the services they provide to the Fund. The Committee directed staff to review the content of the report with NEPC and determine if the separate report from Elkins/McSherry is still necessary. The matter will be reviewed at the March Investment Committee meeting and discontinued if that is the best decision.

VI. 1st Quarter 2019 Performance Flash Report

Trustee Beyna distributed the Northern Trust preliminary performance flash report for January 31, 2019. The reports indicated that the total Fund returned 4.45% for the month with the Equity component leading with 8.06% return for the month. Mr. Leonard indicated that they will concentrate on the analysis of the quarterly performance reporting in subsequent months.

NEPC will investigate why it has not received any performance data on the Fund's recent investment with UBS from the Northern Trust.

A motion was made by Trustee Wright, seconded by Trustee Lappe to adjourn the Investment Committee meeting.

ROLL CALL

For:	Beyna, Fields, Hamburger, Lappe, Wodnicki, and Wright (6)
Against:	None (0)
Absent	Brown, and Summers (2)

Respectfully submitted,



Brian Wright
Recording Secretary of the Board of Trustees
Investment Committee Member